

Message Text

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ORIGIN AID-37

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TO AMEMBASSY PHNOM PENH

C O N F I D E N T I A L STATE 047104

AIDAC

SUBJECT: IMF REACTION TO MODIFICATIONS IN GKR ECONOMIC POLICY

REF: PHNOM PENH 2177

1. IN A MARCH 13 TELEPHONE CONVERSATION WITH CAMBODIA AID DESK, TOMASSON AT IMF SAID THAT HE AND SENIOR FUND OFFICIALS (WOODLEY AND PALMER) WERE ABOUT READY TO MAKE RECOMMENDATIONS TO FUND DIRECTORS ON PROPOSED COMPENSATORY DRAWING. TOMASSON STATED THAT, IN THIS CONNECTION, THERE WAS SOME CONCERN AT THE FUND AS TO WHETHER KHMER AUTHORITIES WERE ADEQUATELY RESPONDING TO FUND ADVICE AND ECOMMENDATIONS.

2. ONE AREA OF FUND CONCERN HERE HAS TO DO WITH RECENT GKR DECISIONS TO IN SOME CASES RESCIND OR DELAY VARIOUS PRICE INCREASES. TOMASSON INDICATED THAT WHILE THE FUND IS SYMPATHETIC TO KHMER POLITICAL REQUIREMENTS, GKR FAILURE TO IMPLEMENT PRICE INCREASES WOULD HAVE TO BE CONSIDERED IN DETERMINING HOW WELL GOVERNMENT WAS COOPERATING WITH FUND.

3. TOMASSON REFERRED TO RECENT CABLE FROM EVERS, OUTLINING WHAT EVERS SEEMED TO THINK WERE AREAS OF DISAGREEMENT BETWEEN U. S. EMBASSY AND HIM. WE TRIED TO CLEAR UP, APPARENTLY WITH
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SOME SUCCESS, SOME OF MATTERS RAISED BY TOMASSON BUT TRANSMIT EVERS' REPORT FOR YOUR INFORMATION AND IN EVENT EMBASSY MAY WISH COMMENT.

4. EVERS REPORTED THAT BNC GOVERNOR IS CONCERNED RE " EFFICACY" OF ESF AND THAT GOVERNOR AND " OTHER DONORS" ARE TALKING OF REPLACING ESF WITH SOME SORT OF CIP ARRANGEMENTS. TOMASSON SEEMED TO THINK THAT WE MIGHT BE ONE OF THESE " OTHER DONORS" WHO WANTED TO REPLACE ESF. OUR RESPONSE WAS THAT NEITHER WE NOR THE EMBASSY AS FAR AS WE KNOW HAD MADE ANY SUGGESTION OF THIS SORT TO BNC GOVERNOR AND THT WE HAD NO INTENTION OF EITHER REPLACING ESF OR TRYING TO SUPPLEMENT WITH CIP ANY ESF SHORTFALL. AS FAR AS WE ARE AWARE, ONLY DISCUSSION OF THIS SORT INVOLVED GREAT BRITAIN LAST FALL WHICH THEN HAD SOME NOTION OF MAKING A CIP CONTRIBUTION RATHER THAN PARTICIPATING IN ESF.

5. EVERS ALSO SEEMS TO BELIEVE THAT WEDEMAN HAS SUGGESTED TO BNC GOVERNOR THAT ESF OPERATIONS BE HALTED. WE SAID THAT NEITHER WE NOR WEDEMAN HAD ANY INTENTION OF STOPPING ESF OPERATION; HOWEVER, GKR MIGHT HAVE SUGGESTED THAT ESF OPERATION WOULD HAVE TO SHUT DOWN IN EVENT U. S. DOLS 4 MILLION CONTRIBUTION TO ESF WAS NOT MADE, AND THAT EMBASSY MIGHT HAVE AGREED THAT OUR WITHHOLDING U. S. CONTRIBUTION PENDING SATISFACTORY PROGRESS ON MILITARY PAYROLL COULD CASUE SOME DELAY IN FUND OPERATIONS.

6. ON SUBJECT OF PROHIBITION OF LUXURY IMPORTS UNDER ESF (PARA. 8 REFTEL) WE SAID WE WERE AWARE OF POSSIBLE DISAGREEMENTS BETWEEN EVERS AND EMBASSY, BUT THAT WE THOUGHT BOTH WE AND FUND WORKING TOWARD SAME BROAD OBJECTIVE OF DIMINISHING ESF FINANCING OF LUXURY GOODS AND PROVIDING IMPORT REGIME WHICH MINIMIZES NEED FOR GKR DISCRETIONARY ACTIONS.

7. TOMASSON SEEMED TO BE MOLLIFIED BY OUR EXPLANATIONS AND AGREED THAT " DIFFERENCES" BETWEEN FUND AND EMBASSY APPEARED TO BE LESS THAN EVERS HAD INDICATED. HE SAID FUND WOULD PROBABLY SEEK CLARIFICATION FROM EVERS ON THESE SUBJECTS. WE SEE NO NEED FOR YOU TO RAISE THESE MATTERS SPECIFICALLY WITH EVERS, BUT, ASSUMING YOU ARE IN AGREEMENT WITH OUR GENERAL APPROACH, YOU MAY WANT TO CLARIFY SOME OF THESE ISSUES WHEN OPPORTUNITY PRESENTS ITSELF.
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8. TOMASSON WILL KEEP US INFORMED OF PROGRESS WITHIN FUND ON
SECURING APPROVAL FOR COMPENSATORY DRAWING. GDS. ROGERS

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